LOUISVILLE BUSINESS FIRST

MONEY

Socially responsible investing can bring strong returns

The concept of socially responsible investing (SRI) gained popularity during the 1970s, when highly charged political issues such as the Vietnam War and apartheid in South Africa led some investors to try to avoid supporting policies that were counter to their beliefs.

Early versions of SRI involved screening out companies whose products or actions were deemed contrary to the public good.

The evolution of SRI

Over the past decade, we have seen the traditional exclusionary approach to SRI evolve into a more dynamic approach.

This approach seeks to review corporations in a more proactive and comprehensive manner, putting a greater emphasis on identifying the positive long-term impact of a company's operations, products and policies on society, the environment and the economy.

This approach is commonly referred to as sustainable, responsible and impact investing and also goes by the acronym SRI.

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The factors considered for this strategy generally fall into the categories of environmental, social and governance (ESG) and are highlighted as follows:

- *Environmental factors* consider if a company manages its resources in a sustainable fashion and whether it is a good steward of the environment.
- *Social factors* evaluate how well a company deals with issues such as diversity, human rights and interacts within the communities in which it operates.
- *Governance* evaluates how well the leaders of a corporation oversee their rights and responsibilities in relation to the various stakeholders (employees, shareholders, etc.).

Demand for SRI increasing

Demand for SRI strategies has increased significantly the past few years.

According to a recent survey conducted by the Institute for Sustainable Investing, 71 percent of individual investors expressed an interest in sustainable investing.

According to the Forum for Sustainable and Responsible Investment (also known as US SIF), investment dollars also are moving.

SRI assets have grown 76 percent in the past couple of years and reached $6.57 trillion at the start of 2014.

Tips for SRI

If you are interested in sustainable, responsible and impactful investing, here are a few tips to help you find the right fund and manager:

- Review the manager's investment and ESG criteria from their website and marketing materials. Determine if they are proactively identifying leading companies making a positive impact or if it is primarily a "negative" screening approach. Both can work — you just want the strategy to be consistent with your values.
- Evaluate the manager's experience and performance track record. You want to invest with a team that is experienced and has competitive investment results relative to their peers, non-SRI funds and the popular market indices.
- Search for managers that charge reasonable fees, preferably below the average for their particular asset class. Fees for many SRI funds can be high, so you might want to consider SRI exchange traded funds with lower charges.
- Historically, the knock on SRI has been poor investment results. However, this is quickly changing as more quality investment managers enter the space.

With a little homework you should be able to build both a socially responsible portfolio and one that has competitive returns.

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